MONTGOMERY WARD

ANNUAL REPORT 1964

RESULTS AT A GLANCE

	1964	1963
Net Sales	$1,697,390,884	$1,500,111,708
Earnings before Federal Income Taxes *(Including all subsidiaries)*	39,165,389	38,319,606
Earnings after Federal Income Taxes	21,865,389	20,966,606
Earnings Reinvested During Year	8,315,753	7,086,874
Stockholders' Investment	646,250,026	637,935,982
Investment per Common Share	50.27	49.63
Earnings per Common Share	1.66	1.57
Dividends per Common Share	1.00	1.00

IN BRIEF

Net sales for the tenth consecutive year set a new record as they increased 13.2% to $1,697,390,884.

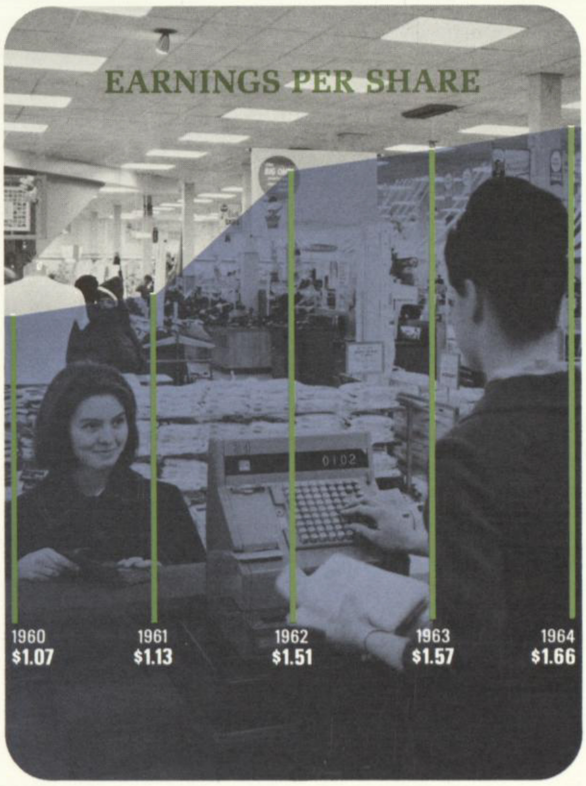
Net earnings improved for the fourth consecutive year, rising 4.3% to $21,865,389 as profit improvement in the fall season overcame the deficiencies of the spring season.

Outlook is for a sales increase of 6% or more in 1965 and a further improvement in earnings as past expansions and merchandising changes produce better results.

Operations and programs of the Company are discussed in detail in the President's letter to stockholders on the following pages.

John A. Barr
Chairman

Robert E. Brooker
President



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PRESIDENT'S LETTER TO STOCKHOLDERS

For the year 1964, we reported a significant gain in sales and a modest improvement in profits.

Sales were $1,697,390,884—up 13.2%, the largest year-to-year increase since 1947 and the tenth consecutive year of sales gains. The fiscal year of 1964 contained 53 weeks, one more week than in 1963.

Earnings for the year were $21,865,389 or $1.66 per share of common stock compared with $20,966,606 or $1.57 per share in 1963.

We have taken advantage of the high level of economic prosperity to maintain an accelerated rate of expansion and modernization of both retail and catalog facilities; to improve our methods and systems for merchandising, buying, distribution and personnel training; to mechanize many of our accounting, credit, clerical and order processing functions. In reviewing the results of operations for 1964, recognition should be given to the costs and effects of these improvement programs.

Earnings And Taxes. Total earnings before taxes, including all subsidiaries, for the 53-week fiscal year were $39,165,389 as compared with $38,319,606 for 1963's 52-week fiscal year.

Federal income taxes of $17,300,000 in 1964 and $17,353,000 in 1963 were based upon tax rates effective during the respective periods and reflect investment tax credits on expenditures for fixtures and equipment. Although the Federal income tax rate was lower in 1964 than in 1963, the benefit of this reduction was partially offset by a smaller investment credit in 1964.

Dividends of $1.00 per common share and $7.00 per Class A share were paid to stockholders in the amount of $13,549,636 in 1964 and $13,879,732 in 1963. The balance of earnings, $8,315,753, was reinvested in the business—the largest amount reinvested since 1953. Reinvested earnings in 1963 totalled $7,086,874.

Earnings of Montgomery Ward Credit Corporation were $5,392,766 as compared with $2,877,546 last year. Earnings of M-W Properties Corporation and Montgomery Ward Realty Corporation amounted to $411,686 in 1964 and $356,704 in 1963. These earnings are included in the consolidated net earnings of the parent corporation.

The higher earnings of the Credit Corporation resulted from the substantial increase in Ward's retail and catalog sales through customers' receivables and the efficient financing of these receivables by the Credit Corporation. These earnings represent the difference between the expense charged to the parent and the interest and operating costs incurred by the Credit Corporation.

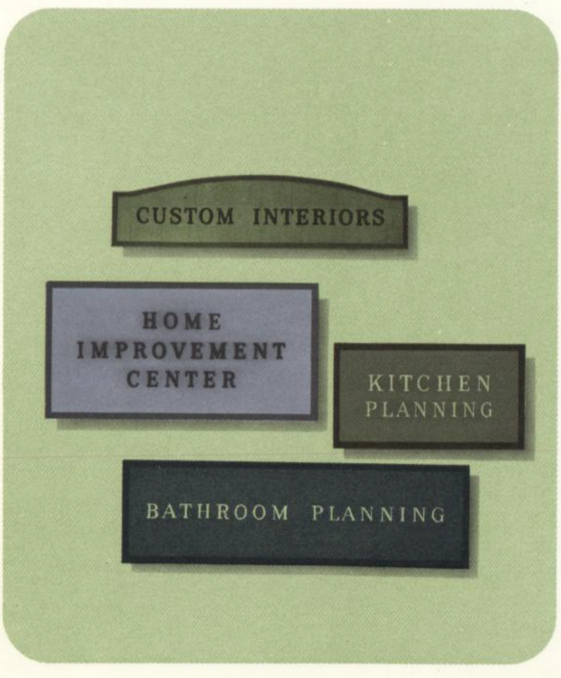
Although we improved our gross margins during the year, several major items significantly affected operating costs. In adopting a tighter inventory control system, we incurred substantial costs as we reduced the number of assortments of our merchandise lines. While we were in process of rehabilitating some of our large stores, including the former Fair Store on State Street in Chicago, we necessarily lost sales from the disruption of our normal business operations. Earnings which we had to forego from the rehabilitation of 8 large and 46 medium size stores were substantial.

Amortization expense of new facilities and new systems increased for the third consecutive year and now is approaching its maximum level. The increased costs resulting from extension of our benefits program in 1963, to provide greater protection for our larger employment force, have now stabilized and are holding a constant relationship to sales. Rental and lease costs for new and expanded facilities required a larger expenditure in 1964 but remained at the same ratio to sales. Administrative costs, although higher in dollars, were lower as a percentage of sales.

As of February 3, 1965, the Company deferred payment of $9 million of Federal and State taxes related to installment sales and $11 million resulting from accelerated depreciation. Other than for the interest savings on the retained funds, the deferral had no effect on reported earnings.

Accounts Receivable Increase 25%. Total accounts receivable for the parent and its subsidiaries increased to $732,663,178, a 25% increase from $586,635,226 in 1963, reflecting a 15% increase in active customer accounts on the books of retail stores, catalog stores and catalog houses from 3,755,000 to 4,307,000. In the last year, the average balance of these accounts increased 11%, from $152 to $168.

Through continuous promotion of our credit service and the addition of new customers, we have further increased the proportion of our credit sales from 44% in 1963 to 47% in 1964.



Capital Expenditures Continue at High Level. Capital expenditures were $73,022,509, slightly less than the $74,093,240 of 1963, as the Company's rate of investment in new facilities leveled off, but substantially higher than the $22,752,409 expended in 1962 prior to the acceleration of our expansion and modernization program.

Depreciation charges totaled $17,142,890 compared with $13,346,614 last year and $11,899,981 in 1962.

The largest expenditure in 1964 was for the rehabilitation and expansion of retail stores, including large stores in Albany, Detroit, Chicago, St. Paul, Denver, Kansas City and Oakland.

The second largest capital expenditure was for the establishment of 24 new retail stores.

Other major projects included the second year of a three-year renovation of the Company's corporate offices in Chicago, the construction of multi-deck parking structures in Oakland and Kansas City, and the purchase of various tracts of land for future expansion purposes.

Capital expenditures in 1965 are planned at approximately the 1964 level. The Company will carry through to completion the renovation of its large stores in Albany, Chicago, Kansas City and Oakland, the establishment of 24 new and relocated stores, and the rehabilitation of 18 additional stores in the small and medium size category. It also will complete the modernization of the Chicago corporate offices. By the end of 1965, we will have completed the rehabilitation of most of the major retail facilities scheduled to be enlarged or modernized in their present locations.

Financial Requirements. In recent years, requirements have increased for funds to finance the steady increase in the volume of our credit sales and to provide funds for our capital investments in expanded and modernized facilities.

MONTGOMERY WARD CREDIT CORPORATION was created in 1960 as a wholly-owned subsidiary to provide economical financing of the parent Company's large and rapidly growing volume of customers' receivables. In the past five years, the receivables of the Credit Corporation and the parent company have more than doubled, from $357 million to $733 million.

Short-term borrowings were increased by $16 million to finance purchases of additional accounts receivable during 1964 and now total $345,452,110. Long-term debt was increased by $50 million and now totals $150 million. Equity capital was increased as an additional $25 million was invested by the parent company in the subsidiary to provide a stronger equity base for its future borrowing requirements.

COUNSELING

TO SERVE ITS CUSTOMERS BETTER, Wards offers professional assistance in the coordination of color in home furnishings and guarantees satisfaction in the selection of materials and accessories for home improvements.

Ward's equity investment in the Credit Corporation at the end of the fiscal year was $91 million. Customers' receivables owned by the Credit Corporation totaled $693,967,886.

MONTGOMERY WARD REALTY CORPORATION AND M-W PROPERTIES CORPORATION were established to facilitate the financing of the capital requirements for land and buildings. During 1964, these subsidiaries obtained $22½ million additional funds through the issuance of 4¾% secured notes, increasing their total external debt at year-end to $51,152,000.

Share of Market Improves. In the 10 years since 1954, Ward's combined retail and catalog sales have increased 91% and, during this same period, Ward's share of the total market has increased every year, now approximating 2.36% as compared with 1.84% in 1954.

The concentrated promotional programs of Ward's 19 metropolitan districts are improving the Company's proportionate volume of retail sales in those areas. All of our catalog house territories reported increases in their share of the market over the previous year.

Retail Operations. Ward's retail sales for 1964 were $1,162,500,000, up $121,700,000 or 11.7%.

During the 1964 fiscal year, the Company established 24 new retail stores. Twenty were enlarged replacements for old stores and four were in new locations. During the year 12 of the retail stores which were closed were replaced by catalog stores. At the end of the fiscal year, Montgomery Ward was selling its merchandise through 502 retail stores.

In 1964, 54 retail stores were rehabilitated as compared with 37 in 1963. As we accelerated the rate of rehabilitating to a total of 91 stores in the last two years, substantial economies were realized through standardization of layouts, flooring, lighting, fixtures, displays and other equipment and facilities.

During the months that our major stores have been undergoing renovation, sales have been lost as we maintained our operations despite the handicaps caused by the remodeling programs. These programs significantly impaired our profits in 1964. We will continue to bear the cost of major remodeling projects in Albany, Chicago, Kansas City and Oakland until their completion in the late summer or fall of 1965.

Catalog Operations. Our catalog sales were $534,900,000, an increase of 16.5% over last year as compared to a 10% increase by the industry. When compared with the general merchandise mail order industry, Ward's share increased from 21.6% to 22.9%, recovering the position it lost in 1963. The sales increase was contributed by all media—seasonal, sale and special catalogs and promotional circulars—and from all types of outlets—retail store catalog desks, catalog stores, catalog sales agencies, metropolitan telephone order units and direct mail.

PERSONAL SERVICE

TO SERVE ITS CUSTOMERS BETTER, Wards now can schedule in-the-home demonstrations by salesmen from most catalog and retail stores. With a full knowledge of merchandise assortments and values, they counsel customers on the styles, sizes and colors that blend best with their homes and their pocketbooks. Wards offers many other types of customer-oriented services including tire maintenance and repair for truck owners and fleet operators.

Our long-range program to serve medium size communities and suburban areas with Company-operated catalog stores was extended as we opened 58 catalog stores in new markets; 12 in markets formerly served by retail stores; 20 to improve market penetration in areas already served by Wards. In addition, 32 were relocated in markets already served by retail or catalog stores. In 1963, 49 catalog stores were opened in new markets and 42 were relocated. At the end of the fiscal year, we were operating 818 catalog stores and 28 of these stores offer auto-tire-battery maintenance, installation and repair services.

As more customers turn to the convenience of telephone shopping, we have extended our metropolitan telephone order services and now are operating 30 such units as compared with only 12 a year ago.

More than 300 salesmen have been employed by catalog stores to contact prospective customers regarding major appliances, water heaters, building materials, floor coverings, built-in kitchen cabinets and other merchandise requiring planning, estimating, delivery or installation services.

The Company has developed a new type of selling outlet—an independently owned catalog sales agency—to provide additional catalog service for customers in market areas where the principal town's population is between 2,000 and 5,000.

These agencies offer all 130,000 items of merchandise listed in Ward catalogs and they feature floor displays of major appliances which can be sold direct to customers. One hundred eight of these agencies were established across the country in 1964, many of them being operated by husband-and-wife teams who are long-time residents of their communities.

During 1964, we distributed an additional million Spring & Summer and Fall & Winter catalogs and supplemented these with nine million additional smaller catalogs and promotional circulars to keep present and prospective customers up to date on Ward's merchandise values.

New Vitality in Merchandising Programs. As the Company's physical facilities have been rebuilt and modernized, Ward's management has intensified its efforts to revitalize its merchandising programs and operations. Important steps have been taken during the past three years to decentralize our retail and catalog operations and to increase the proficiency of our centralized buying organization. These have provided us with a closely-knit, well-integrated system tailored to develop constantly better merchandise values.

Great progress has been made in changing Company merchandising systems from the purchase and sale of varied assortments of products, including many manufacturers' brands,

CONVENIENCE

TO SERVE ITS CUSTOMERS BETTER, Wards is extending the benefits of its low-cost, rapid delivery catalog service to many new customers. Catalog sales agency agreements were signed with local residents in more than 100 small towns last year for the sale and display of Montgomery Ward merchandise. New telephone ordering services were established in 18 big cities during 1964 to make shopping easier for those customers who find it difficult to get to retail stores.

to a completely integrated system of mass merchandise buying and selling of Montgomery Ward brand merchandise lines.

The Company has developed new and improved product lines to its own specifications under its own brand names and in its own specially-designed packages to realize the maximum economies that are inherent in chain store retailing methods. This has necessitated close working relationships between knowledgeable merchandise buyers and their manufacturing sources. By making large-volume contractual commitments with fewer suppliers, production and shipping costs have been reduced. As the new lines of merchandise were made available to stores, our retail store department managers and sales personnel were retrained on the advantages and values of Montgomery Ward brand merchandise items.

By concentrating our purchases with fewer suppliers and simplifying product lines under our own brand names, better control over specifications and product quality is being maintained.

More than 90% of the merchandise being sold through retail and catalog stores, as compared with 40% three years ago, now carries our own trade names backed by the Montgomery Ward reputation for quality, value and guaranteed service. Formal contractual arrangements now in force with manufacturing sources account for 70% of our total volume as compared with less than 30% three years ago.

Inventory Management Improved. The task of converting inventories in all stores and catalog houses into the new Montgomery Ward brand merchandise lines was one of the most difficult changes instituted by management.

This program, along with a realignment of inventory systems to improve inventory turnover, was initiated early in 1963. It required two years for the buying departments to restructure their lines and for retail stores to eliminate old assortments and to restock with the new Ward brand lines of faster turning assortments.

New store procedures for marking and receiving merchandise and for processing invoice payments have accelerated the movement of merchandise into store stocks. In addition, the introduction of daily open-to-buy controls, mechanized inventory budgeting and more accurate ordering procedures has expedited the flow of merchandise from factories to customers and has permitted our stores to be more responsive to changing sales trends.

The composition of our year-end inventories was the best in size and assortment in many years and we expect to hold our inventories close to their present levels as our sales volume continues to increase.

FASHIONS

TO SERVE ITS CUSTOMERS BETTER, Wards is offering professionally-conducted classes in personal grooming, make-up, posture, manners, fashion and personality development for girls of all ages, from four to eighty-four. Many thousands have enrolled in these "Wendy Ward" courses at stores or by mail order... Nationwide personal appearance tours of groups of famous-name European and American designers of Ward fashions attracted audiences of one to five thousand and were praised by top fashion editors as bringing the best of the world's fashions to American women at modest prices.

New Customer Programs. In anticipation of customer demands for more and better service for radio, TV, home appliances and other mechanical products, Wards last year increased the number of its central service units to 22 in major metropolitan areas. Four hundred sixty-five radio-dispatched trucks operate from these locations and 860 service trucks are in daily service in other communities. These trucks and service units are operated by more than 2,100 service technicians who have been given specialized training courses in the maintenance and repair of all Montgomery Ward products.

Expansion of the services of auto service centers is being continued. In the 498 auto service facilities operated by the Company, products that are sold are installed by trained auto mechanics. Wards now has 2,400 stalls to provide auto maintenance, repair and installation service. In many locations, the Company sells gasoline in addition to a full line of auto accessories, parts and equipment.

During 1964, the Company completed a two-year program of converting its catalog and retail credit accounts to a simplified single Charg-All plan for customers—a free 30-day charge account with service charges assessed only on the unpaid balance remaining beyond the 30-day period. The Company also offers two supplementary plans with schedules of one to seven years of installment payments for major appliances, home furnishings and major home improvement projects.

We are proceeding to centralize and mechanize the handling of most catalog store credit accounts in a few principal locations instead of at each of the Company's 818 catalog stores.

To make shopping easier for our customers, more of our merchandise lines are being openly displayed, attractively packaged, descriptively labelled and clearly identified as to brand, quality and price. Wards also has rearranged its retail stores to facilitate self-selection and to provide quick cashier and credit service for customers. This more efficient system has made it possible to improve work schedules for full-time employees and to employ a large number of part-time employees as we keep our stores open for customers during more evening shopping hours.

Mechanization. Conversion of manual operations to computers is an important part of the Company's overall modernization and expansion program. Initial applications involved accounting and statistical activities. Electronic data processing equipment now is being adapted to catalog and retail store operations, credit, and inventory and ordering systems. Computers will provide more accurate customer billing, better merchandise information and further improvements in customer services.

SAFE DRIVING

TO SERVE ITS CUSTOMERS BETTER, Indianapolis "500" mile race champions Parnelli Jones (above) and Rodger Ward enroll young people across the country in Ward's Sportsmanship Safety Clubs to promote safe-driving and the use of safe automotive equipment and accessories.

The Company is establishing data processing networks in our nine catalog houses and in our large retail metropolitan districts to meet these mechanization needs.

In retail, we are extending the use of computers to post customers' accounts receivable and to prepare monthly statements; to maintain warehouse order handling and inventory control systems; to process retail store accounting and management reports; to provide data for central replenishment of fashion merchandise. The Company also is developing prototype installations for the company-wide mechanization of retail store ordering and inventory control systems of certain merchandise departments.

In the catalog area of the Company's business, computers are being used to maintain customer buying and circulation information; address catalogs; forecast and maintain catalog inventory and sales data; receive, process, price and schedule incoming customer orders.

Management Development. The rapid growth and progress of the Company has created many promotion opportunities for our present employees and for those we recruit annually from schools and other businesses. We conduct a variety of management development training programs to develop these men and women for greater managerial responsibilities in the retail, catalog and administrative divisions of the Company.

We have completed the staffing of our districts, zones and merchandise departments and are now concentrating our attention on training qualified personnel whose talents and abilities will be called upon in the years ahead to maintain the momentum of our progress. Some of our most important training programs are:

- College Cadet Program—Employment of selected college students on a part-time basis, providing them with a variety of work experiences in various departments until they graduate from college; 213 of these students are now in our retail organization.

- Junior Management Training Program—Approximately 550 college graduates are employed annually for enrollment in a 12-month training program in sales, management, shipping, receiving, merchandising, accounting, credit and special operating assignments.

- Middle Management Training Program—An 11 to 15 week orientation course for 27 to 35 year-old men employed for specific sales and management positions at the middle management level; 132 men were employed and trained in this category last year.

- Senior Management Training Program—This is a limited program for those senior executives who are employed to fill specific management positions in the Company; 19 persons were trained under this program last year.

RELIABILITY

TO SERVE ITS CUSTOMERS BETTER, Wards has added 1,200 men and women to its service staff in the last three years and has established major service centers in 21 of the nation's large metropolitan areas. Service technicians annually receive specialized training in the installation, maintenance and repair of each new line of Ward products.

■ Sponsor Store Program—Trainees for department managers in such specialties as automotive service or repair service are given special training by outstanding department managers of stores; 177 employees were trained under this program in 1964.

■ Correspondence Courses—These have been developed to familiarize employees with each credit function. One-half of our credit employees now are enrolled in these courses which will better equip them to serve the needs of our millions of credit customers.

■ Retail Department Manager Training Program—This is a special curriculum being given to all present and future store-level department managers. By the end of 1965, 13,500 managerial employees will have completed this program.

■ Management Orientation Conferences—These are semi-annual, two-week conferences for the intensive training of potentially-promotable executives to broaden their knowledge of all facets of Ward's corporate operations; 109 men have graduated from this course.

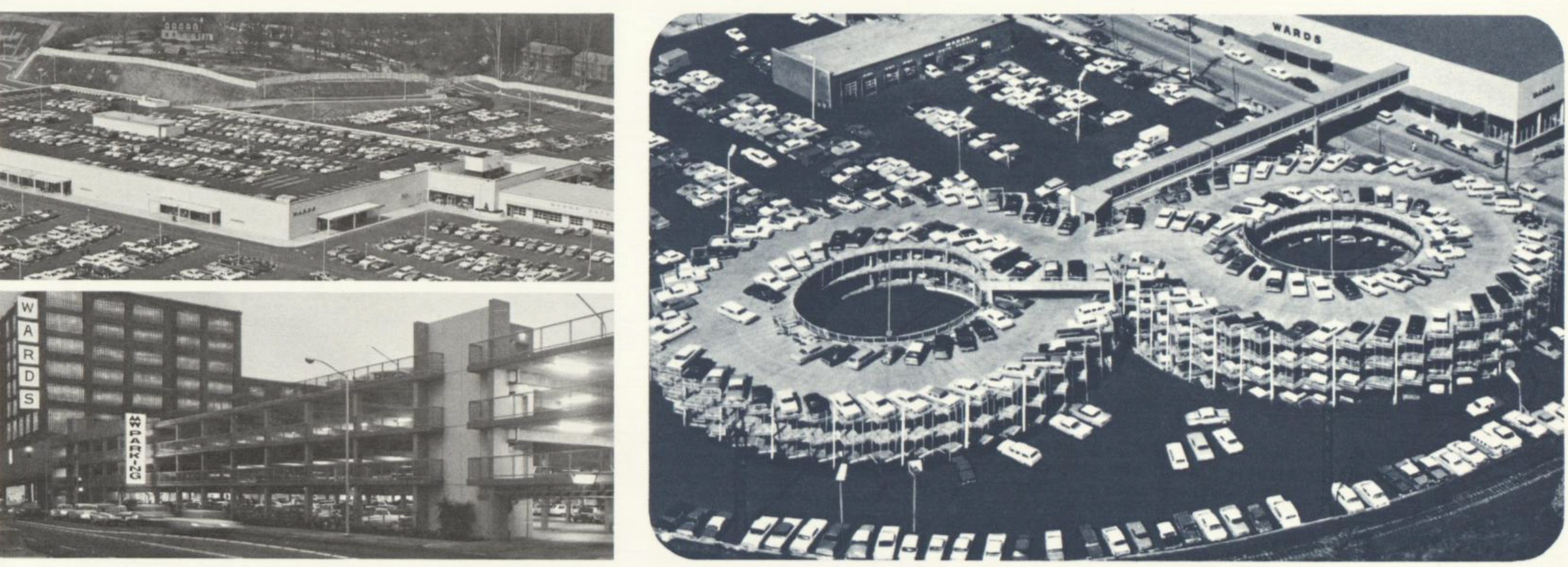
A new stability is evident in our executive ranks. Turnover of store managers and other executives has declined substantially. In 1964, most positions were filled by promoting Ward personnel into higher management positions. Of the 193 new retail store managers appointed during the past three years, 178 were promoted from within our own organization.

Executive Changes. Following the annual meeting of stockholders last year, the Board of Directors elected Edward S. Donnell executive vice president in charge of the Company's regional retail and catalog sales operations, including customer services, real estate and engineering. The Company's four regions now are managed by vice presidents who report directly to Mr. Donnell.

On December 7, announcement was made that John A. Barr, Chairman of the Board of Directors for the past 10 years, would become dean of the School of Business of Northwestern University on June 1, 1965.

Mr. Barr has fulfilled his trust to stockholders and to employees as a director for 15 years and as Chairman of the Board for 10 years. He carries with him to his new position as an educator of future businessmen the best wishes of the officers and directors and of all of his Montgomery Ward associates.

Because of the pressure of other business responsibilities, Elliott V. Bell, Chairman of the Executive Committee of McGraw-Hill, Inc., requested that he not be nominated as a director this year. Mr. Bell's contributions to the Company during his three years as a member of the Board of Directors were invaluable.



PARKING

TO SERVE ITS CUSTOMERS BETTER, Wards provides large parking areas including top-of-the-store parking at Falls Church, Va.; tilted-ramp parking at Oakland, Calif.; parking-in-the-round at Kansas City. At all stores, customers can have their automobiles serviced while they shop.

Summary Appraisal. 1964 was a year of good business for the retail industry and one in which your management devoted most of its time and effort to the application of basic fundamentals of merchandising.

Earnings prospects for 1965 should be evaluated on the basis of the total economy as well as continuing changes in our operations. As the high level of business activity continues, we will be able to absorb the extraordinary expenses for our store rehabilitation program without impairing profits as severely as in 1964 when we reached the peak level of rehabilitation expenses.

We are aggressively proceeding with major changes in our distribution system to take advantage of the new techniques and equipment that will increase the efficiency of operations.

As a corporation, and as a national chain retailer, Montgomery Ward today is better prepared to serve the nation's customers, including the growing number of younger and more affluent families, than at any time since World War II. The Company's programs have bulwarked its competitive position against the eventualities of unfavorable economic developments.

The new strength of Montgomery Ward may be found in a greater depth of experienced management, comprehensive training programs, improved long-range buying relationships with suppliers, better merchandise lines and promotions, and modern retail stores in convenient locations. In addition, the further use of electronic equipment will yield economies as volume increases. A broad program of employee incentive and security benefits has strengthened the morale of employees and contributed to their new enthusiasm to share in the profit growth of Montgomery Ward.

This report of accomplishments by the Company is a record and tribute to the combined talents and efforts of the men and women who are the Montgomery Ward of today.

To these employees and to our 91,000 stockholders, we report that prospects for 1965 are for a continued upward trend of sales and profits.

Respectfully submitted,

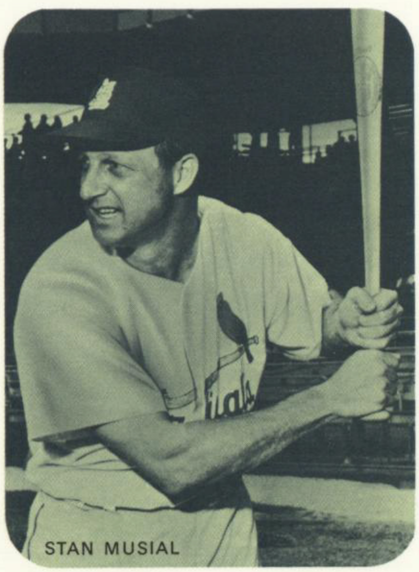
Robert E. Brooker

Robert E. Brooker
President

April 5, 1965


ELLIS NEWMAN


PANCHO SEGURA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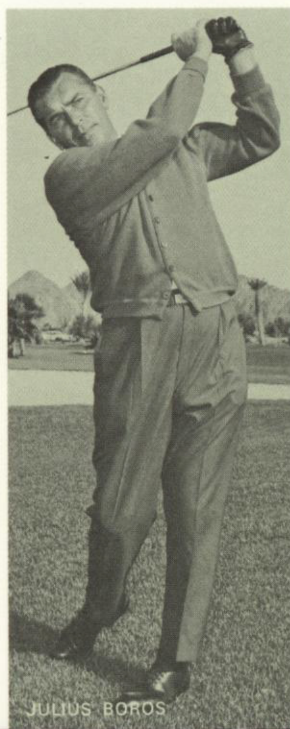
JULIUS BOROS


STAN MIKITA

CONSULTANTS

TO SERVE ITS CUSTOMERS BETTER, Wards has attracted top sportsmen and athletes of the nation to assist its buyers in selecting only the best of sports equipment for customers.

MONTGOMERY WARD & CO., INCORPORATED

CONSOLIDATED STATEMENTS OF EARNINGS & EARNINGS REINVESTED

Earnings

for the fiscal years ended February 3, 1965 and January 29, 1964

	1964 (53 weeks)	1963 (52 weeks)
NET SALES	$1,697,390,884	$1,500,111,708
COSTS AND EXPENSES:		
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein	$1,580,987,245	$1,391,879,555
Rents	29,477,533	25,724,179
Maintenance and repairs	7,021,536	6,175,665
Depreciation and amortization	16,018,750	12,568,809
Contribution to employees' savings and retirement plans	5,120,954	4,088,000
Property, social security and state taxes	31,003,929	28,083,144
Provision for Federal taxes on income	11,700,000	13,860,000
Total costs and expenses	$1,681,329,947	$1,482,379,352
NET EARNINGS FROM OPERATIONS	$ 16,060,937	$ 17,732,356
NET EARNINGS OF SUBSIDIARIES NOT CONSOLIDATED	5,804,452	3,234,250
TOTAL NET EARNINGS	$ 21,865,389	$ 20,966,606

Earnings Reinvested

	1964	1963
BALANCE AT BEGINNING OF YEAR	$ 426,946,137	$ 423,766,013
NET EARNINGS	21,865,389	20,966,606
Total	$ 448,811,526	$ 444,732,619
CASH DIVIDENDS:		
Class A stock —$7.00 per share	$ 978,120	$ 1,312,791
Common stock—$1.00 per share	12,571,516	12,566,941
EXCESS OF COST OVER STATED VALUE OF CLASS A SHARES REACQUIRED	126,989	3,906,750
Total	$ 13,676,625	$ 17,786,482
BALANCE AT END OF YEAR	$ 435,134,901	$ 426,946,137

Explanatory notes to these financial statements appear on page 15.

MONTGOMERY WARD & CO., INCORPORATED

CONSOLIDATED BALANCE SHEET

Assets	February 3, 1965	January 29, 1964
CURRENT ASSETS:		
Cash	$ 33,715,985	$ 26,344,657
Time deposits maturing in less than six months	—	23,500,000
Marketable securities, at cost	—	47,783,742
Receivables, including equity in accounts sold, less reserves for doubtful accounts and unearned carrying charge income	145,442,469	89,336,386
Merchandise inventories, at the lower of cost or market	349,866,801	328,564,429
Prepaid catalog costs, supplies, etc.	43,601,445	31,331,852
Total current assets	$572,626,700	$546,861,066
NET EQUITY IN, & ADVANCES TO, SUBSIDIARIES NOT CONSOLIDATED	100,533,785	69,787,162
PROPERTIES AND EQUIPMENT, at cost less reserves for depreciation	208,789,189	178,889,493
	$881,949,674	$795,537,721

Liabilities	February 3, 1965	January 29, 1964
CURRENT LIABILITIES:		
Notes payable to banks	$ 73,865,000	$ —
Accounts payable and other liabilities	96,201,605	93,534,375
Accrued expenses	47,184,337	48,273,072
Federal taxes on income	7,368,706	5,762,292
Total current liabilities	$224,619,648	$147,569,739
DEFERRED FEDERAL TAXES ON INCOME	$ 11,080,000	$ 10,032,000
CAPITAL STOCK AND EARNINGS REINVESTED:		
Class A stock, no par value—Authorized 205,000 shares non-callable, $7.00 per share cumulative dividends; issued 201,554 shares less 62,330 shares in Treasury in 1965 and 60,300 shares in 1964 stated at liquidating value	$ 13,922,400	$ 14,125,400
Common stock, no par value—Authorized 20,000,000 shares; issued 13,004,756 shares at stated value	211,231,385	211,231,385
Earnings reinvested in the business	435,134,901	426,946,137
	$660,288,686	$652,302,922
Less—Treasury common stock, 425,944 shares in 1965 and 435,604 shares in 1964, at cost	14,038,660	14,366,940
Total capital stock and earnings reinvested	$646,250,026	$637,935,982
	$881,949,674	$795,537,721

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MONTGOMERY WARD CREDIT CORPORATION

BALANCE SHEET

Assets	February 3, 1965	January 29, 1964
CURRENT ASSETS:		
Customers' deferred payment accounts purchased without recourse from Montgomery Ward & Co., Incorporated	$693,967,886	$572,861,801
Less portion of purchase price withheld pending collection (including allowance for estimated uncollectible accounts of $6,922,214 in 1965 and $5,715,332 in 1964)	69,222,135	57,153,317
	$624,745,751	$515,708,484
Cash	1,082,913	1,260,192
Prepaid interest on notes payable	1,470,801	1,138,328
Total current assets	$627,299,465	$518,107,004
DEBENTURE DISCOUNT AND EXPENSE, after amortization	1,266,752	1,347,481
OTHER ASSETS	10,886	32,770
	$628,577,103	$519,487,255

Liabilities	February 3, 1965	January 29, 1964
CURRENT LIABILITIES:		
Notes payable	$345,452,110	$329,050,000
Payable to Montgomery Ward & Co., Incorporated	36,213,889	18,122,043
Accrued interest and other liabilities	947,440	1,544,166
Federal taxes on income	3,780,898	1,957,458
Total current liabilities	$386,394,337	$350,673,667
LONG TERM DEBT:		
Term Notes due August 31, 1970-71	$ 50,000,000	$ —
4 7/8% Debentures, due July 1, 1980	50,000,000	50,000,000
4 3/4% Debentures, due February 1, 1981	25,000,000	25,000,000
5 1/4% Subordinated Debentures, due February 1, 1981	25,000,000	25,000,000
Total long term debt	$150,000,000	$100,000,000
UNEARNED DISCOUNT ON DEFERRED PAYMENT ACCOUNTS	$ 804,182	$ 7,827,770
INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:		
Common stock, $100 par value— Authorized 500,000 shares; issued and outstanding 250,000 shares	$ 25,000,000	$ 25,000,000
Capital in excess of par value	50,000,000	25,000,000
Earnings reinvested in the business:		
Balance at beginning of year (1965: $10,985,818; 1964: $8,108,272)		
Net earnings (1965: 5,392,766; 1964: 2,877,546)	16,378,584	10,985,818
Total investment of Montgomery Ward & Co., Incorporated	$ 91,378,584	$ 60,985,818
	$628,577,103	$519,487,255

Explanatory notes to these financial statements appear on page 15.

MONTGOMERY WARD REAL ESTATE SUBSIDIARIES:
MONTGOMERY WARD REALTY CORPORATION AND M-W PROPERTIES CORPORATION

COMBINED BALANCE SHEET

			February 3, 1965	January 29, 1964
Assets				
CURRENT ASSETS:				
Cash			$ 96,796	$ 64,126
Marketable securities, at cost *(Montgomery Ward Credit Corporation commercial paper)*			910,203	—
Accounts receivable			2,940	32,710
Receivable from Montgomery Ward & Co., Incorporated			1,012,116	956,152
Prepaid interest and taxes			3,279	11,693
Total current assets			$ 2,025,334	$ 1,064,681
PROPERTIES, at cost: *(Leased to Montgomery Ward & Co., Incorporated)*				
Land			$12,490,992	$ 5,877,031
Buildings, less reserves for depreciation of $6,641,111 in 1965 and $5,596,062 in 1964			45,110,330	29,157,311
Leasehold improvements, after amortization			2,747,610	2,824,183
Total properties			$60,348,932	$37,858,525
FINANCING EXPENSE, after amortization			$ 396,194	$ 166,168
			$62,770,460	$39,089,374
Liabilities				
CURRENT LIABILITIES:				
Principal payments of secured notes due within one year			$ 864,000	$ 487,000
Notes payable to Montgomery Ward & Co., Incorporated			1,314,093	320,311
Accrued expenses			191,073	91,913
Federal taxes on income			51,893	59,606
Total current liabilities			$ 2,421,059	$ 958,830
DEFERRED FEDERAL TAXES ON INCOME			$ 906,200	$ 677,200
LONG TERM DEBT:				
Secured notes at interest rates of $4\frac{3}{4}\%$ to $5\frac{1}{4}\%$ due serially to January 15, 1995, less principal payments due within one year			$50,288,000	$28,652,000
$4\frac{1}{2}\%$ Subordinated note, due January 6, 1974, payable to Montgomery Ward & Co., Incorporated			5,752,205	5,810,034
Total long term debt			$56,040,205	$34,462,034
INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:				
Common stock			$ 2,225,400	$ 2,225,400
Earnings reinvested in the business:	1965	1964		
Balance at beginning of year	$765,910	$409,206		
Net earnings	411,686	356,704	1,177,596	765,910
Total investment of Montgomery Ward & Co., Incorporated			$ 3,402,996	$ 2,991,310
			$62,770,460	$39,089,374

AUDITORS' OPINION

To the Stockholders and Board of Directors, Montgomery Ward & Co., Incorporated:

We have examined the consolidated balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) and subsidiaries as of February 3, 1965, and the related consolidated statements of earnings and earnings reinvested for the 53-week period then ended. We have also examined the balance sheet of Montgomery Ward Credit Corporation and the combined balance sheet of Montgomery Ward Realty Corporation and M-W Properties Corporation (all Delaware corporations) as of February 3, 1965. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of the companies as of February 3, 1965, and the consolidated results of their operations for the 53-week period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 52-week period.

Chicago, Illinois, March 18, 1965

Arthur Andersen & Co.

NOTES TO FINANCIAL STATEMENTS

RECEIVABLES	*February 3,* 1965	*January 29,* 1964
Total Receivables (Principally customer installment accounts)	$787,241,615	$618,596,612
Less—Reserves for doubtful accounts and unearned carrying charges	17,053,395	13,551,742
	$770,188,220	$605,044,870
Less—Accounts sold to credit subsidiary (net of amount withheld pending collection)	624,745,751	515,708,484
	$145,442,469	$ 89,336,386

PROPERTIES AND EQUIPMENT	*February 3,* 1965	*January 29,* 1964
Land	$ 18,014,650	$ 20,731,969
Buildings	$119,551,094	$105,050,140
Fixtures and Equipment	143,435,416	120,470,194
	$262,986,510	$225,520,334
Less—Reserves for depreciation	87,720,780	80,158,731
	$175,265,730	$145,361,603
Leasehold improvements, after amortization	$ 15,508,809	$ 12,795,921
Properties and Equipment—Net	$208,789,189	$178,889,493

PRINCIPLES OF CONSOLIDATION—The consolidated statements include all subsidiaries except Montgomery Ward Credit Corporation, M-W Properties Corporation, and Montgomery Ward Realty Corporation, wholly owned subsidiaries for which separate or combined balance sheets are presented in this report. The net equity of subsidiaries not consolidated is stated in the consolidated balance sheet at the amount of the Company's investments in such subsidiaries plus accumulated earnings in the net amount of $17,556,180 as of February 3, 1965, which amount is included in Earnings Reinvested.

COSTS AND EXPENSES—The Statement of Earnings sets forth certain merchandise costs and operating expenses. These same costs and expenses may also be presented as follows: cost of merchandise sold, including net occupancy and buying expenses, $1,238,529,575 in 1964 and $1,096,656,234 in 1963; operating, selling and general administrative expenses, $429,641,279 in 1964 and $370,640,296 in 1963.

RETIREMENT AND SAVINGS PLANS—Under the Retirement Plan of the Company and its subsidiaries, there was an estimated unfunded past-service liability of $25 million as of February 3, 1965. Provision was made during the fifty-three week period ended February 3, 1965 for interest on the unfunded past-service liability and full funding of current-service liability. During the fiscal year the Company contributed $1,620,954 to the Employee Savings Plan.

EMPLOYEES' STOCK OPTIONS—Under the Company's stock option plan 579,350 shares of authorized but unissued common stock were reserved on February 3, 1965 for issuance to officers and key employees. Reacquired common stock may be issued in lieu of authorized but unissued stock. On February 3, 1965, options for a total of 464,000 shares were held by 214 individuals, and options for 208,885 shares were exercisable. The option prices ranged from $26^7/_8$ to $47^7/_8$ per share as fixed by the closing price of the stock on the New York Stock Exchange on the dates granted. Options granted prior to January 1, 1964 are for a period of 10 years and on and after January 1, 1964 for a period of five years. Options are exercisable in cumulative installments of 10% per year for options granted prior to May 11, 1962 and 20% per year for options granted thereafter, commencing one year from date of grants. During the 1964 fiscal year, options for 9,660 shares were exercised.

LEASE OBLIGATIONS—The Company had 838 leases in effect as of February 3, 1965 having terms of more than three years after that date. These leases provided for present aggregate minimum annual rentals of approximately $25,332,000 (of which $4,444,000 is payable to M-W Properties Corporation and Montgomery Ward Realty Corporation) plus, in certain instances, real estate taxes and other expenses. Additional amounts based upon percentage of sales may become due on 22% of these leases. The Company has no obligation under any of these leases beyond the year 1998 except for ground leases of two stores which extend through the years 2020 and 2029.

CREDIT CORPORATION—Under the Term Loan Agreement and the Indentures relating to the $4^7/_8$% and $4^3/_4$% Debentures, the Credit Corporation may not declare dividends on, or acquire any of its common stock if, after giving effect to such transactions, current assets as defined in the Indentures and the Agreement are not at least equal to 120% of total liabilities as defined in the Indentures and the Agreement. As of February 3, 1965, $3,556,505 of the Credit Corporation's earnings reinvested in the business were restricted under these provisions. Term Notes in the amount of $34 million provide for interest at variable rates. The entire Term Note borrowing had an interest rate of $4^3/_4$% at February 3, 1965.

Most of Montgomery Ward's retail sales now are made through stores in major metropolitan areas where the Company has established large, modern stores and expanded or relocated its old ones. In the last 10 years, the average sales per store have doubled, from $1,150,000 to $2,316,000, as retail sales have increased 79% and the total number of retail stores has decreased from 566 to 502.

In 1964, 104 stores, serving city and suburban customers primarily, recorded sales of more than $3 million annually and accounted for 62% of Ward's total retail sales. In 1955, the 27 stores in this size category provided only 26% of the Company's retail sales.

The 187 medium size stores with sales of $1 to $3 million in 1964 accounted for 26% of the retail sales as compared with the 38% provided by 167 stores of this size in 1955.

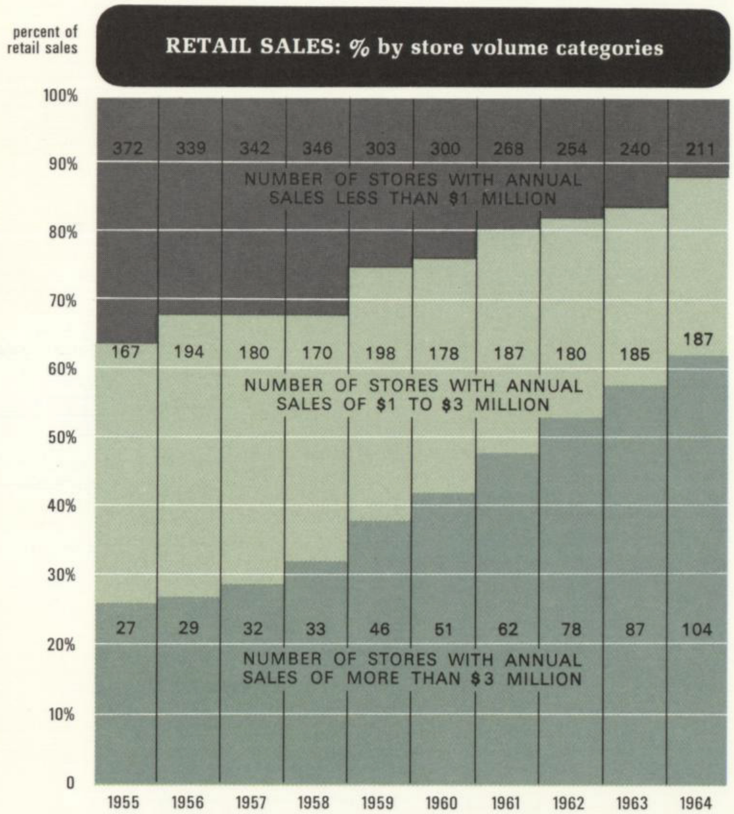
The 211 stores selling under $1 million annually, located principally in small communities, accounted for only 12% of Ward's retail sales in 1964. Ten years ago, 372 of these small stores accounted for 36% of Ward's retail sales.

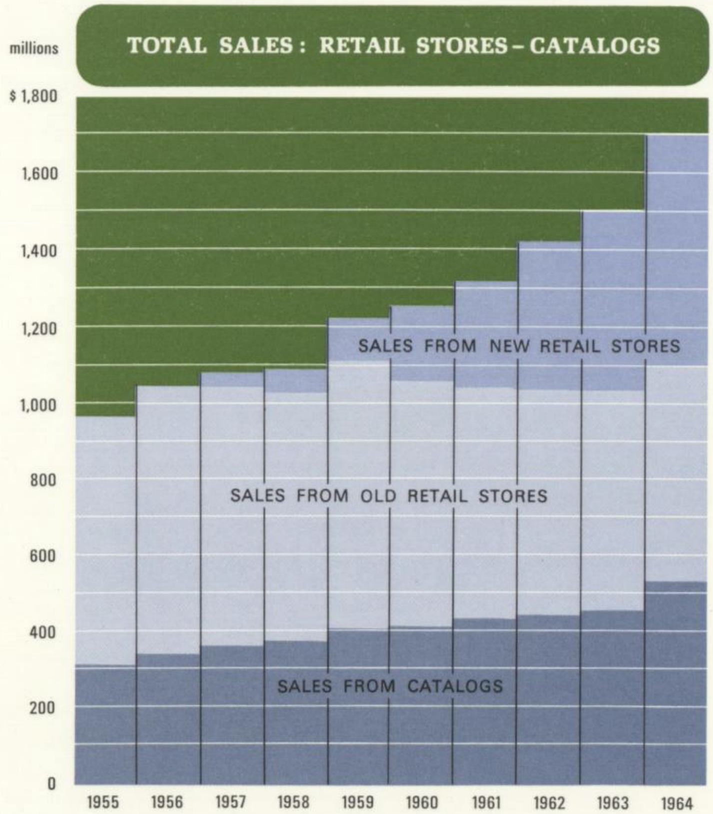
Sales of Montgomery Ward increased from $970 million to $1,697 million in the 10-year period 1955-64. This 75% increase in sales volume compares with an increase in total retail sales, excluding autos, gasoline and other major non-competitive lines of merchandise, for the nation of approximately 40% for the same period.

Retail store sales in 1955 totalled $651 million; in 1964 they were $1,162,500,000, an increase of 79%.

Catalog sales in 1955 were $319 million; in 1964 they were $534,900,000, an increase of 68%.

The chart below portrays the fact that 54% of the Company's retail sales now are made by new stores that have been opened since 1957. Although not shown on this chart, an additional 16% of the Company's retail sales volume is generated by stores that have been rehabilitated in the last two years. Thirty per cent of retail sales are obtained from old stores, principally in medium-size and small communities.





Accounts receivable outstanding at the end of the fiscal year, principally customer installment accounts, were $732,663,178, an increase of $146,027,952, or 25% over last year.

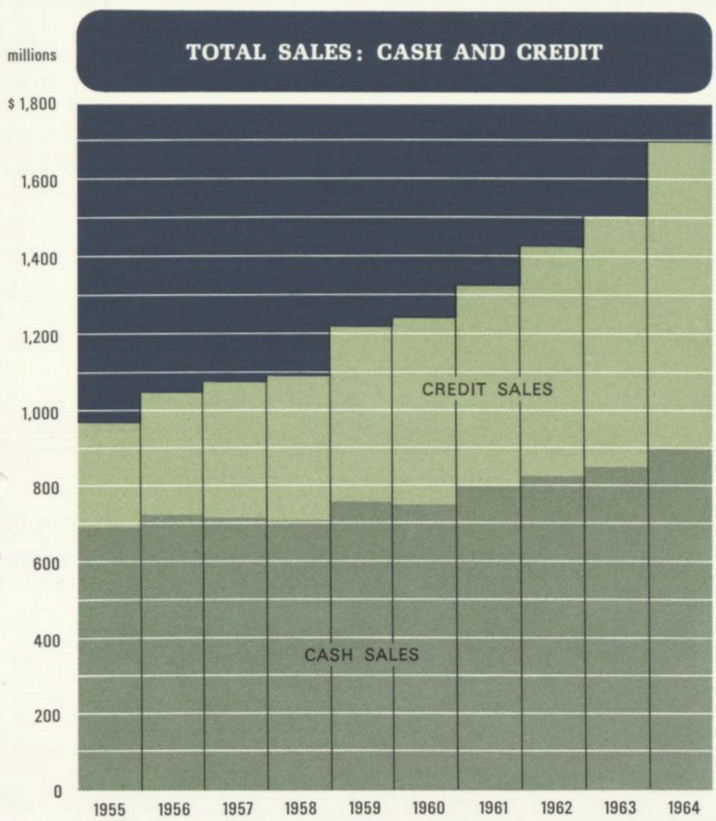
As the Company's simplified Charg-All credit plan gains greater acceptance among customers, and as new customers open accounts with Montgomery Ward, credit sales are expected to increase further. In 1964, credit sales increased by $144 million to $798 million, representing 47% of total sales as compared with $654 million or 44% in 1963 and $283 million or 29% 10 years ago. Although cash sales have accounted for a decreasing share of total sales volume, they have increased 31% from $687 million to $899 million in the 10-year period.

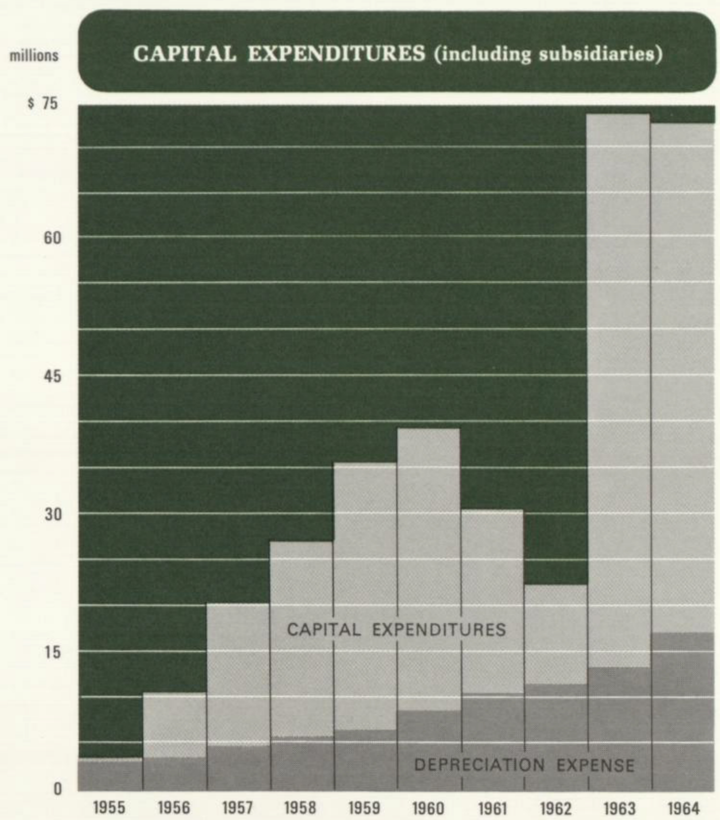
The extension of new credit services to meet the needs of additional customers has been an important factor in strengthening the Company's competitive position. Credit accounts at the end of 1964 totalled 4,307,000 as compared with 3,755,000 last year, an increase of 15%.

In the past 10 years, Montgomery Ward invested a total of $337,829,034 in new and improved properties and equipment, 44% of it being expended in 1963 and 1964 as management accelerated its rate of expanding and modernizing retail and catalog facilities.

As shown on the chart below, capital expenditures in 1963 were $74,093,240 and in 1964 were $73,022,509. Depreciation charges in these years were $13,346,614 and $17,142,890.

Capital expenditures in 1965 are estimated at approximately $70 million in accordance with Company plans to establish 24 new and relocated stores, to rehabilitate 18 small and medium size stores, and to complete the renovation of some of its large stores and its general office headquarters in Chicago. In 1966 and subsequent years, the Company will be able to direct most of its capital expenditures to the establishment of new stores with a relatively modest amount being allocated for annual renovations and rehabilitations.





TEN-YEAR STATISTICAL SUMMARY

OPERATIONS	1964	1963	1962
Net Sales	$1,697,390,884	$1,500,111,708	$1,425,187,840
Net Earnings	21,865,389	20,966,606	20,415,681
Federal Income Taxes *(including all subsidiaries)*	17,300,000	17,353,000	20,825,000
Dividends	13,549,636	13,879,732	13,996,630
Earnings Reinvested or *(in italics)* Paid Out to Stockholders from earnings of previous years	8,315,753	7,086,874	6,419,051
Additions to Properties and Equipment:			
Parent and Consolidated subsidiaries	69,055,893	72,169,514	21,335,348
Nonconsolidated subsidiaries	3,966,616	1,923,726	1,417,061
Depreciation and Amortization:			
Parent and Consolidated subsidiaries	16,018,750	12,568,809	11,147,015
Nonconsolidated subsidiaries	1,124,140	777,805	752,966
Number of Retail Stores	502	512	512
Number of Catalog Stores	818	737	691
Average Number of Employees	93,802*	82,890	77,123

**Includes larger percentage of part-time employees than in previous years.*

FINANCIAL POSITION	1964	1963	1962
Working Capital *(after intercompany adjustments)*:			
Parent and Consolidated subsidiaries	$ 311,491,186	$ 381,805,125	$ 463,787,666
Nonconsolidated subsidiaries	277,025,269	185,025,390	154,292,928
Accounts Receivable *(after intercompany adjustments)*:			
Parent and Consolidated subsidiaries	107,914,487	70,894,032	63,996,717
Nonconsolidated subsidiaries	624,748,691	515,741,194	414,881,564
Inventories	349,866,801	328,564,429	285,720,832
Net Investment in Properties and Equipment:			
Parent and Consolidated subsidiaries	208,789,189	178,889,493	128,830,668
Nonconsolidated subsidiaries	60,356,470	37,867,956	30,934,129
Long Term Debt, Nonconsolidated subsidiaries *(after intercompany adjustments)*:	200,288,000	128,652,000	118,239,000

STOCKHOLDERS' INTEREST	1964	1963	1962
Capital Stock and Earnings Reinvested	$ 646,250,026	$ 637,935,982	$ 640,679,610
Investment per Common Share *(book value of shares outstanding at end of year)*	50.27	49.63	49.38
Earnings per Common Share *(on average number of shares outstanding during the year)*	1.66	1.57	1.51
Dividends per Common Share	1.00	1.00	1.00
Shares Outstanding:			
Class A	139,224	141,254	201,554
Common	12,578,812	12,569,152	12,565,771
Number of Stockholders	91,754	96,776	104,580

1961	1960	1959	1958	1957	1956	1955
$1,325,941,281	$1,248,993,866	$1,222,596,263	$1,092,267,472	$1,073,799,422	$1,045,767,458	$969,946,996
15,859,096	15,053,599	30,656,537	28,030,510	29,696,757	35,844,479	35,441,046
16,780,500	16,551,700	32,775,000	28,800,000	30,660,000	38,190,000	38,260,000
14,182,249	20,619,205	27,010,180	27,011,140	30,507,029	30,671,579	30,671,579
1,676,847	*(5,565,606)*	3,646,357	1,019,370	*(810,272)*	5,172,900	4,769,467
23,632,379	22,339,716	36,073,835	27,271,255	20,476,338	10,516,918	3,339,409
6,904,636	17,406,390	—	—	—	—	—
9,852,659	8,317,153	6,429,527	5,334,929	4,517,949	3,588,874	3,081,225
522,408	218,536	—	—	—	—	—
517	529	547	549	554	562	566
676	627	568	527	475	415	301
72,106	67,258	63,153	58,152	59,714	57,691	55,010
$ 449,767,743	$ 469,648,372	$ 541,005,545	$ 566,551,714	$ 587,609,314	$ 610,974,437	$612,528,569
163,088,589	112,812,358	—	—	—	—	—
194,780,691	238,845,291	356,590,631	305,325,253	277,179,867	237,915,314	189,725,601
240,374,252	167,415,758	—	—	—	—	—
296,174,404	266,784,895	260,218,266	242,026,480	227,432,485	247,094,113	262,625,068
121,861,235	111,741,337	104,691,071	75,225,195	53,578,754	37,792,614	31,065,582
30,754,648	21,755,732	—	—	—	—	—
118,541,000	68,829,000	—	—	—	—	—
$ 635,438,336	$ 640,218,052	$ 645,696,616	$ 641,776,909	$ 641,188,068	$ 648,767,051	$643,594,151
48.80	48.42	48.85	48.57	48.49	48.34	47.94**
1.13	1.07	2.28	2.08	2.19	2.65	2.62**
1.00	1.50	2.00	2.00	2.25	2.25	2.25**
201,554	201,554	201,554	201,554	201,554	201,554	201,554
12,608,396	12,805,696	12,803,406	12,796,256	12,808,556	13,004,756	13,004,756**
108,194	107,609	106,006	99,956	92,127	84,605	74,674

***Adjusted for 2-for-1 stock split in May, 1956.*

OFFICERS

John A. Barr
Chairman

Robert E. Brooker
President

Edward S. Donnell
Executive Vice President

Russell P. Bygel
Vice President

Harold F. Dysart
Vice President and Controller

John D. Foster
Vice President

Frederic E. Giersch
Vice President

Charles J. Kushell, Jr.
Vice President

Sidney A. McKnight
Vice President

Martin D. Munger
Vice President

Frederick H. Veach
Vice President

Charles W. Wood
Vice President

Andrew Lamb
Treasurer

Charles J. Barnhill
Secretary

Harold W. Bancroft
Assistant Secretary

Russell E. Mooney, Jr.
Assistant Treasurer

Thomas O. Stratton
Assistant Treasurer

DIRECTORS*

John A. Barr
Chairman, Montgomery Ward, 1950

Robert E. Brooker
President, Montgomery Ward, 1962

Elliott V. Bell
Chairman of the Executive Committee McGraw-Hill, Inc., 1962

Russell P. Bygel
Vice President, Montgomery Ward, 1958

Philip R. Clarke
Chairman of the Executive Committee Montgomery Ward, 1942

Fairfax M. Cone
Chairman of the Executive Committee Foote, Cone & Belding Advertising Agency, 1962

Edward S. Donnell
Executive Vice President, Montgomery Ward, 1963

Donald M. Graham
Vice Chairman of the Board of Directors Continental Illinois National Bank and Trust Company of Chicago, 1962

Edward Gudeman
Partner, Lehman Brothers, 1963

Charles J. Kushell, Jr.
Vice President, Montgomery Ward, 1957

Lenox R. Lohr
President, Museum of Science and Industry of Chicago, 1956

Ernest S. Marsh
President, The Atchison, Topeka and Santa Fe Railway Company, 1959

Robert L. Milligan
President, The Pure Oil Company, 1959

James J. Nance
Chairman, Central National Bank of Cleveland, 1962

Charles W. Wood
Vice President, Montgomery Ward, 1962

**Date indicates year elected Director*

TRANSFER AGENTS

The Northern Trust Company,
Chicago, Illinois
Morgan Guaranty Trust Company of New York,
New York, N.Y.

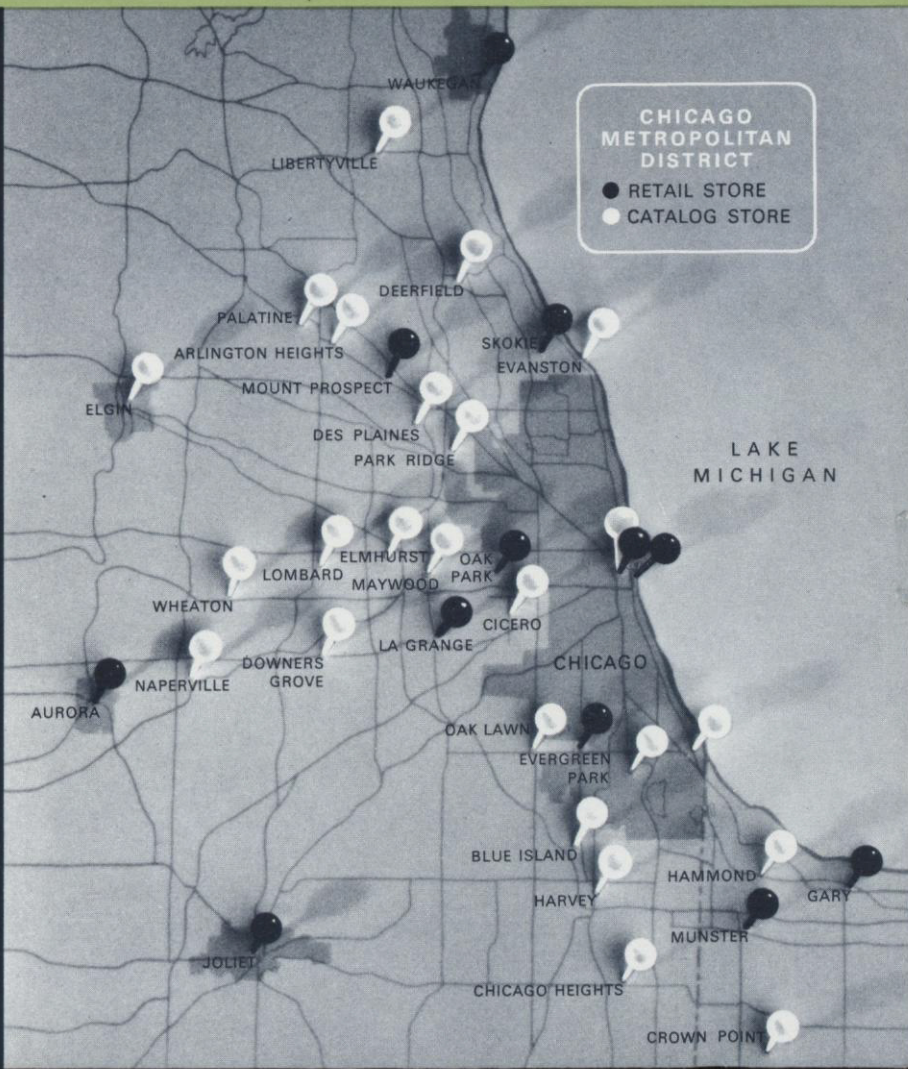
REGISTRARS

The First National Bank of Chicago,
Chicago, Illinois
Bankers Trust Company,
New York, N.Y.

CORPORATE OFFICES

619 W. Chicago Avenue, Chicago, Illinois 60607
Telephone: 467-2000

TO SERVE ITS CUSTOMERS BETTER in its home town, Montgomery Ward this fall will complete the modernization of its largest store (photo on opposite page) in the heart of Chicago's downtown shopping center on State Street. By the end of 1965, Wards will be operating 13 retail and 31 catalog stores in the Chicago metropolitan area.




MONTGOMERY
WARD
MONTGOMERY
WARD

1964 MONTGOMERY WARD